

Top Secret

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Monday August 22, 1977

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National Intelligence Daily Cable for Monday, 22 August 1977

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The NID Cable is for the purpose of informing senior US officials.

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CHINA: Party Congress Wrap-up

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[] The 11th congress of the Chinese Communist party, held in Peking from August 12-18, reaffirmed the new leadership's commitment to order and stability, rational economic growth, and the primary role in the leadership for veteran officials who had suffered in the past at the hands of the now-discredited leftists.

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[] The new members of the party's ruling Politburo are almost exclusively veteran party officials and experienced government administrators. Their selection raises the average age of the Politburo and reflects the relative shortage of experienced middle-aged and young officials. Three "new" members have been restored to the Politburo status they had held in the past but lost to leftists. Others bring to the Politburo expertise in science, economic planning, and political problem solving. The new commander of the air force has also been added, but the military's representation on this body, as on the newly elected central committee, is not overly conspicuous.

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[] Chairman Hua Kuo-feng was confirmed as the party's leader and delivered the major political address to the congress. He is joined in the upper reaches of the Politburo by four vice-chairmen--Defense Minister Yeh Chien-ying, rehabilitated Teng Hsiao-ping, vice-premier Li Hsien-nien, and Wang Tung-hsing, head of the security forces. The five make up the Politburo Standing Committee.

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[] Wang's elevation brings some balance to this group. He is undoubtedly being rewarded for the leading role he played in the arrest of the leftists, but he seems also to have cultivated by Hua as a counter to Teng Hsiao-ping. He may also be acting as party secretary-general, a position once held by Teng. Nevertheless, Teng and his two strong supporters on the Standing Committee, Yeh and Li, outrank Wang. Teng delivered the closing address at the congress and was identified as the congress' "executive chairman," suggesting he was impresario of the meeting.

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[] A major theme of the congress was order and stability. In his speech, Hua Kuo-feng redefined "class struggle" in such a way as to divorce it from the context of party factionalism,

as it had been used in the past decade, and to link it instead to the idea of stability bringing "great order" to China. Hua specifically stated that "popular feeling favors order" and claimed that order and stability were a behest of Mao himself. Yeh Chien-ying redefined another favorite leftist phrase--"going against the tide"--to mean opposing those things that jeopardize party discipline and stability.

25X1 [] Hua Kuo-feng stated that the purge of the leftists marked the end of the Cultural Revolution, officially closing out that segment of party history for the first time. Thus, the official version of the Cultural Revolution includes not only the rise of the leftists and their destruction of the political careers of party veterans but the fall of the leftists and the subsequent return to order and stability. The new leadership may now praise the Cultural Revolution without seeming to endorse the disruptive activities usually associated with it.

25X1 [] The new definition of the Cultural Revolution, especially terming it the "first" Cultural Revolution, protects the leadership from any later charge that it has rejected either the Cultural Revolution or Mao Tse-tung's thinking that more such revolutions will occur in the future. The congress, in fact, dealt rather deftly with the Maoist legacy, putting his contributions on a par with those of many other communist theoreticians and thus not giving him undue prominence, but also using his mantle to justify both the current leadership and current policies. Mao's role in unmasking and struggling against the leftists was stressed, as was his selection of Hua Kuo-feng as his successor.

25X1 [] The four leftists were the villains of the congress. Hua specifically called for a continuing investigation of individuals and incidents connected with the four, and the call for carrying the struggle against them and their influence "to the end" suggests that the purge of leftists is not yet completed. In keeping with the congress' interest in vindicating veteran officials, Hua refuted leftist charges that such officials were "bourgeois."

25X1 [] Most of the documents of the congress emphasized the goal of modernizing China's economy by the end of the century. This goal was specifically included in the new party constitution and was stressed by the speakers at the congress. Hua

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listed as one of the party's main tasks a further revolution in science and technology, education, art, literature, and health work, suggesting major departures from the policies of the past decade are in the offing.

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[] As expected, the chief revision in the party's constitution appears to be a provision that tightens up on party discipline by making it more difficult to become a party member. A one-year probationary period has been reinstituted and special commissions have been set up to "inspect discipline." These steps are designed to undo the work of the leftists, who have been accused of relaxing membership rules in order to pack the party with their supporters. Despite the stricter rules for membership, the total membership of the party has risen from 30 to 35 million.

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[] Further efforts to right the wrongs perpetrated by the leftists were evident in the composition of the new party central committee, which, with 333 members, is the largest ever. More than a third of the former members were dropped, most having been associated with the leftists. Nearly half of the new committee are serving for the first time. Most of these are experienced party, government, and military officials. Very few are representatives of the masses, a ploy popular with the leftists to get large numbers of their supporters on that body.

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[] Military representation on the central committee has dropped slightly to under 30 percent; this drop is somewhat surprising given the military's important role in the roundup of the leftists. The national military bureaucracy is somewhat better represented on this central committee; most of the military cuts came from the provinces, where leftist strength was greatest. As before, provincial representatives make up about two thirds of the total membership. Four members of the eighth central committee, the last before the rise of the leftists, were restored to membership on the new committee.

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[] Foreign policy appears to have been treated only briefly at the congress, and then only in Hua Kuo-feng's speech. Hua stated that both superpowers are "enemies" but reaffirmed that the greater danger comes from the USSR. He endorsed Mao's "revolutionary line in foreign policy," a codeword for the opening to the US. He also endorsed the notion that "factors for war" are growing, linking this specifically with the threat from the USSR. He suggested that China's foreign policy should

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stress the importance of forming the broadest possible front against the superpowers, adding that relations with other countries should be based on the five principles of peaceful coexistence.

[] Hua also specifically reaffirmed the theory of the "three worlds"--revolutionary, middle, and enemies--thus throwing down the ideological gauntlet to the Albanians, who oppose the theory and have been particularly upset with China's opening to the US. The summary of Hua's speech contained no specific positive references to the US. []

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EGYPT-LIBYA: Negotiations

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[redacted] //Egyptian President Sadat told the US ambassador on Saturday that high-level negotiations may be easing Egyptian-Libyan tensions. Libyan President Qadhafi sent a senior military officer to Egypt about 10 days ago to work out with Egyptian War Minister Gamasy an agreement involving the mutual pull-back of troops from the border. Sadat said that if Qadhafi accepts the agreement, he will also.//

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[REDACTED] //Under the agreement, Libyan troops now in the border area would be withdrawn to Tobruk. The only Libyan military forces between Tobruk and the border would be small frontier police units and a small military unit at Musaid. Egyptian forces would be pulled back to Sidi Barrani, except for a small force that would remain at Sollum.//

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[REDACTED] //A timetable for implementing the agreement will be worked out if both presidents accept it. Sadat told Ambassador Eilts that he would accept it, and he thought Qadhafi would as well.//

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[REDACTED] //This is the first indication we have had of negotiations between the two countries at such a high level. Kuwaiti and Palestinian mediation efforts have been going on for some time, but the only significant results have been a stand-down in propaganda exchanges and the creation of a narrow demilitarized zone along the border.//

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[REDACTED] //Sadat's willingness to involve an official of Gamasy's stature in these negotiations is in line with other indications that at least for now he may have given up the idea of new hostilities against Libya.

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[REDACTED] Moreover, Ambassador Eilts reports that Sadat seemed pleased that Egyptian-Libyan tensions appeared to be lessening, although Sadat's antipathy toward Qadhafi had not dissipated.//

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[REDACTED] Sadat has been under heavy domestic criticism and has recently withdrawn from public life for about a month. He is almost certainly aware of mounting public concern that Egypt has allowed itself to be distracted from its conflict with Israel by his preoccupation with ousting Qadhafi. The agreement negotiated by Gamasy may indicate that Sadat has taken account of these criticisms.

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OPEC: Current-Account Surplus

25X1 [] //The OPEC current-account surplus reached \$25 billion in the first half of 1977, substantially above the \$19 billion of the first half of 1976. A sharp upturn in oil sales, especially to the US, accounted for the lion's share of the increase. With oil liftings expected to fall off in second half of 1977, the surplus will decline to as little as one half the January to June level.//

25X1 [] //OPEC oil earnings in first half of 1977 climbed to a record \$67 billion, more than 15 percent above the same period last year. About half of the rise reflected higher oil prices and the remainder higher crude oil liftings. OPEC oil prices in the first half averaged 8 percent more than the 1976 yearend level.//

25X1 [] //OPEC oil exports--30 million barrels per day--were abnormally high in the first half. Exports usually fall after a price increase, as stocks built up in anticipation of higher prices are drawn down. After the January price increases, however, colder than normal weather kept winter demand high and oil companies were still replenishing stocks in the spring.//

25X1 [] //Imports by OPEC members were \$34 billion in the first half--up 15 percent from the first half of 1976. The volume of goods purchased rose 7 percent, continuing the slackened pace evident since spring 1975. Indeed, the slower intake has allowed the mammoth backlogs at OPEC ports to be sharply reduced. OPEC import prices were 6 percent above those of the first half of 1976, partly reflecting the appreciation of the yen, the mark, and other currencies against the dollar.//

25X1 [] //Ten OPEC members achieved current-account surpluses in the first half of 1977. Saudi Arabia once again led the pack with an \$11 billion surplus.//

25X1 [] //We estimate that the surplus for the second half of 1977 will fall off sharply because of reduced OPEC oil sales. Consumers are expected to draw down their unusually high oil stocks in the third quarter, and non-OPEC supplies--Alaskan North Slope and North Sea--will be rising throughout the six-month period. OPEC imports are assumed to continue to climb at the moderate pace of recent months. This would yield a second half surplus of \$12 billion to \$15 billion, depending on how oil demand is affected by winter weather and by how much companies build stocks in the last quarter in anticipation of a possible price rise after January 1, 1978.//

25X1 [] //Indonesia, Nigeria, and Venezuela probably will move into the red in the second half. Although Saudi Arabia is expected to absorb by far the largest share of the export cut, its oil revenues will remain at first-half levels because Riyadh hiked prices by 5 percent on July 1.//

25X1 [] //For the year as a whole, the current-account surplus is likely to run from \$37 billion to \$40 billion, approximately the same as in 1976. With OPEC oil export volume remaining at the same level in both years, the higher oil prices and the growth in investment income will just about cover the increase in imports of goods and services.//

25X1 [] //We now expect that the \$24 billion to \$30 billion surplus (annual rates) projected for second half of 1977 will last at least through 1978. This assumes that oil prices rise at the same rate as global trade prices, the volume of OPEC imports increases at about 10 percent, and OPEC liftings level off as non-OPEC supplies expand. []

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EAST GERMANY - WEST GERMANY: Talks

25X1 [] //The initial "soundings" that took place between East and West German negotiators in Bonn last week are slated to resume on August 25. According to West German negotiator Hans-Juergen Wischnewski, he and his East German counterpart, Michael Kohl, conducted the talks in a "businesslike" manner and made clear their mutual desire to play down their most obvious differences. The West Germans still believe more than two exploratory sessions may be necessary before substantive talks on the many issues can begin.//

25X1 [] //Parallel talks in Berlin on Monday between representatives of the divided city also succeeded in identifying various projects of mutual concern, but the East Germans ducked attempts to include humanitarian issues on the agenda. If successful, the initial talks in Bonn and Berlin will produce a list or lists of projects and issues for negotiations that may drag on for years.//

25X1 [] //Most of the projects are aimed at improving communications between the two Germanies and in the Greater Berlin area. For example, the East and West German talks will cover plans for a new Autobahn linking Hamburg and Berlin, the expansion of utilities, and environmental issues. The Berlin talks involve a new crossing point, canal problems, and construction of a new railroad station.//

25X1 [] //These technical issues, however, may not be discussed until "matters of principle" have been resolved. These issues include the legal position of the East German representation in Bonn and the recognition of a separate East German nationality. While Bonn may extend some form of diplomatic privileges to the East German representatives, the West German government is not flexible on the nationality issue.//

25X1 [] //Numerous humanitarian issues, involving such cases as West Berliners who have been denied entry to East Berlin, could also stall progress on the technical questions unless they are handled in a separate forum outside the main East-West exchange.//

25X1 [] //Earlier reports indicated Bonn hoped to channel humanitarian issues into a separate category for consideration at a lower level. Such an arrangement might relieve some of the pressure in the main negotiations and allow more progress on the technical issues.//

25X1 [] //The East Germans, for their part, have hinted recently that political problems should not stand in the way of improved economic relations, suggesting they might be willing to make some concessions on the humanitarian issues if Bonn is willing to pay. Any payments, however, would have to be unpublicized or otherwise concealed because the East Germans would reject any attempt by Bonn to link cash settlements and humanitarian issues. []

JAPAN: Fukuda's ASEAN Trip

25X1 [] Japanese officials are clearly pleased with the results of Prime Minister Fukuda's consultations with the five leaders of the Association of Southeast Asian Nations at their summit conference in Kuala Lumpur this month and with the favorable reception accorded Fukuda during his subsequent swing through their capitals.

25X1 [] Fukuda's trip to Southeast Asia, the first by a Japanese prime minister since 1974, was largely designed as a renewed sign of Tokyo's interest in the region, where Japan plays a major role in the economic life of every country outside Indochina. The discussions with Fukuda were in step with ASEAN's steady--if slow--movement toward building a common position in trade and aid negotiations with its economic partners.

25X1 [] The Prime Minister's trip does not presage any major change in Japan's relations with the region. Although Fukuda unveiled a variety of aid and investment initiatives during his visits to Burma and the ASEAN member states--Malaysia, Singapore, Thailand, Indonesia, and the Philippines--he generally sidestepped ASEAN's pressures for broader gauged economic concessions.

25X1 [] Fukuda, for instance, raised the possibility of assisting ASEAN's exports to Japan by expanding Tokyo's general system of preferences, but only expressed a willingness to "study" ASEAN's proposal for an export stabilization plan. ASEAN is asking for a \$400-500-million Japanese contribution to this plan. Both the powerful finance and agriculture ministries in Tokyo are opposed, however, and the prospects for agreement will be slim when the two sides discuss the plan in detail this fall.

25X1 [] Even so, Japan is willing to pay a price to maintain some momentum in its gradually expanding relationship with ASEAN. Fukuda, for example, announced Japanese agreement in principle to provide up to \$1 billion in financing for five ASEAN-sponsored industrial development projects. Over the last year, the two sides have also broadened their contacts by establishing the Japan-ASEAN forum--a permanent venue for economic talks.

25X1 [redacted] However Tokyo's contribution to ASEAN's development plans proceeds, ASEAN's effort to establish a common stand on trade and aid negotiations will compel Tokyo to maintain its institutional links, if only to monitor the direction of ASEAN's deliberations.

25X1 [redacted] Beyond that, the Japanese probably hope that their cooperation with ASEAN will induce other countries to follow suit. Given their high economic visibility in Southeast Asia, Tokyo would almost certainly be willing to cooperate with the US and other developed nations in ASEAN-sponsored projects as a means of lowering its profile and sharing costs.

25X1 [redacted] The Japanese, moreover, have also been pleased with ASEAN's conscious effort to avoid creating the impression that the organization is--or could become--a new military alignment against Hanoi. Concern that too close an identification with ASEAN might cast Japan in the role of the successor to the US in Southeast Asia in part inhibited Japanese initiatives toward the organization two years ago. Tokyo now comfortably accepts ASEAN's own definition of cooperation--as a means to advance stability in the region by solving social and economic problems.

25X1 [redacted] Given the success of Fukuda's trip, Tokyo may also reconsider the prospects for an attempt at improving its relations with Hanoi. Although relations with ASEAN are certain to remain Japan's primary focus in Southeast Asia, Foreign Ministry officials are hopeful that they can make gradual progress in improving trade relations with Indochina. Hanoi's unwillingness to assume responsibility for some \$50 million in South Vietnamese debts to Japan has so far impeded negotiations on a bilateral aid and trade package. [redacted] 25X1

BRIEFS

USSR:

25X1 [redacted] //A Soviet submarine--probably a diesel-powered F-class--ran afoul of a US oil drilling ship yesterday off the northeastern coast of Tunisia. The submarine became entangled in the US ship's anchor line while running submerged. When the submarine surfaced, the US ship cut the line, but the submarine remained in the area with the line still snarled in its screw. The Soviets refused assistance from the US ship

and also from a Tunisian patrol boat. The steering mechanism on the US ship may have been damaged. The Soviet navy frequently uses an anchorage near the area where the incident took place. [REDACTED]

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Philippines:

[REDACTED] President Marcos today announced a relaxation of some martial law regulations, including an end to a ban on international travel, a lifting of the curfew, and an amnesty for persons "deemed guilty of subversion." Marcos said he would "study" when nationwide elections can be held.

[REDACTED] The moves are in line with Marcos' efforts over the past several months to improve his record on human rights. Most of the martial law regime's provisions remain in effect, however, and there is no sign that martial law itself will be ended.

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